Central Intelligence Agency

Washington, D.C. 20505

28 August 1984

MEMORANDUM

SUBJECT: Key LDC Debtors: Economic and Financial Prospects

OVERVIEW

Over the last two years, financial rescue packages coordinated by the IMF have forestalled default by debt-troubled less developed countries (LDCs) and have averted a major disruption in the international financial community. In return for complying with an IMF-supported economic adjustment program, debtors have obtained debt restructurings, new commercial bank and IMF loans, and official emergency short-term loans and export credits. This strategy has assumed that as world economic recovery proceeds and LDC adjustments are undertaken, the financially troubled countries would regain normal market access to new loans and be able to service their debt on time. [redacted] 25X1

Western economic recovery--particularly US expansion--and LDC devaluation have spurred large export gains by debt-troubled LDCs. Indeed, the gains so far this year have been larger than the boost in debt service caused by higher interest rates. Nonetheless, debt restructurings by commercial banks and governments continue to be necessary to ease high LDC debt servicing costs. We estimate that some $70 billion likely will be restructured this year by more than 30 LDCs and East European countries; this surpasses last year's record of 25 countries obtaining $55 billion in debt relief. Debtors are taking a more hardline position in current bank negotiations, seeking multi-year reschedulings of principal, interest rate concessions, reduced banking fees, and less stringent IMF surveillance. Most continue to require new bank credit to cover current account deficits; all are seeking additional credits to meet development needs. [redacted] 25X1

For their part, debtor countries will need to continue economic adjustment efforts to restore creditworthiness and lay the foundation for sustainable economic growth. While external accounts have improved, domestic economic adjustments--reducing budget deficits, subsidies, wage increases, and inflation--are proving difficult because of domestic opposition to austerity. Living standards have fallen sharply in many of the debt-troubled LDCs, and labor unions are becoming more vocal in demanding real wage gains. The willingness and ability to maintain harsh adjustment measures vary widely among the debtor governments. Mexico and Brazil have complied with multi-year IMF-supported programs, while Argentina and the Philippines have yet to reach an agreement with the funds or creditors on domestic economic policies. [redacted] 25X1

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